

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Ovid	County Clinton
Audit Date 12/31/05	Opinion Date 2/1/06	Date Accountant Report Submitted to State: 3/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Abraham & Gaffney, P.C.

Street Address

3511 Coolidge, Suite 100

City

East Lansing

State

MI

ZIP

48823

Accountant Signature

Abraham & Gaffney, P.C. [Signature]

Date

3/24/06

**Village of Ovid
Clinton County, Michigan**

FINANCIAL STATEMENTS

December 31, 2005

Village of Ovid
Clinton County, Michigan

December 31, 2005

VILLAGE COUNCIL AND ADMINISTRATION

Mr. William Lasher	President
Mr. Rod Tew	President Pro-Tem, Trustee
Mr. Gerald Meredith	Trustee
Mr. Arthur Price, Jr.	Trustee
Mr. Charles Moore	Trustee
Mr. Larry Ordiway	Trustee
Ms. Ofelia Padilla	Trustee
Ms. Josefina Medina	Clerk
Ms. Cindy Fruchey	Treasurer

Village of Ovid

TABLE OF CONTENTS

December 31, 2005

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-x
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Assets - Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	8
Statement of Cash Flows - Proprietary Funds	9
Notes to Financial Statements	10-22
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	23-24
Budgetary Comparison Schedule - Major Street Fund	25
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	26
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	27
COMPONENT UNIT FUND	
DOWNTOWN DEVELOPMENT AUTHORITY	
Balance Sheet	28
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	29
Statement of Revenues, Expenditures and Changes in Fund Balance	30
Reconciliation of the Statement of Revenue, Expenditures and Change in Fund Balance of the Governmental Fund to the Statement of Activities	31

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Ovid
Ovid, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Village of Ovid, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Ovid's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the Village of Ovid, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Ovid's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Village of Ovid's (the Village's) financial performance and position, providing an overview of the activities for the year ended December 31, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. 2005 represents the second year the Village has reported under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. This discussion and analysis provides comparisons with the previous year.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$4,289,707 (excluding component units).
- Governmental activities net assets were \$1,391,408.
- Business-type activity net assets were \$2,898,299.
- Component Unit net assets were \$156,548.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$613,134 with \$60,186 being reserved, designated, or otherwise earmarked for specific purposes.
- The General Fund realized \$1,431 more in revenues than anticipated for the fiscal year. The General Fund operations and other financing uses expended \$22,748 more than appropriated.
- Overall, the General Fund balance decreased by \$58,537 to \$470,842 with \$470,647 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The primary government issued no new debt issues for the year.
- The total long-term debt for the primary government was \$239,131 with a net reduction of \$34,217 from the prior year.
- The Village remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government was \$81,701 and included a dump truck, construction of new restrooms at the park, additions to the water and sewer systems, and other items.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

Village of Ovid

Management's Discussion and Analysis

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during 2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village wide elected official operations are reported under these activities.
- ***Business-type Activities*** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund are examples of these activities.
- ***Discretely Presented Component Unit*** - Discretely Presented Component units are legally separate organizations for which the Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the Village. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

Village of Ovid

Management's Discussion and Analysis

- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Ovid include the General Fund, the Major Street Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund.

Village of Ovid

Management's Discussion and Analysis

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 10 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements. Also presented in this section is additional financial information related to the discretely presented component unit (DDA).

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, Village of Ovid's combined net assets were \$4,289,707 at the end of this year's operations. The net assets of the governmental activities were \$1,391,408; the business type activities were \$2,898,299.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2005.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$623,720	\$656,411	\$590,981	\$589,459	\$1,214,701	\$1,245,870
Noncurrent	802,395	863,898	2,563,845	2,602,756	3,366,240	3,466,654
Total assets	1,426,115	1,520,309	3,154,826	3,192,215	4,580,941	4,712,524
Liabilities						
Current	21,428	19,765	55,132	51,603	76,560	71,368
Noncurrent	13,279	7,774	201,395	251,637	214,674	259,411
Total liabilities	34,707	27,539	256,527	303,240	291,234	330,779
Net Assets						
Invested in capital assets-						
net of related debt	802,395	863,898	2,348,845	2,342,756	3,151,240	3,206,654
Restricted	131,444	112,831	191,889	189,725	323,333	302,556
Unrestricted	457,569	516,041	357,565	356,494	815,134	872,535
Total net assets	\$1,391,408	\$1,492,770	\$2,898,299	\$2,888,975	\$4,289,707	\$4,381,745

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's primary government net assets changed during the fiscal year:

Village of Ovid

Management's Discussion and Analysis

Changes in Net Assets for the Fiscal Year Ending December 31, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenue:						
Charges for services	\$ 39,659	\$ 44,802	\$ 265,650	\$ 271,488	\$ 305,309	\$ 316,290
Operating grants and contributions	114,710	116,455	-	-	114,710	116,455
General revenues:						
Property taxes	340,991	326,162	-	-	340,991	326,162
State Revenue Sharing	153,707	154,181	-	-	153,707	154,181
Investment earnings	11,239	6,375	10,901	2,964	11,239	9,339
Miscellaneous	21,388	22,278	13,190	4,421	34,578	26,699
Total revenues	681,694	670,253	289,741	278,873	971,435	949,126
Expenses						
General government	223,615	203,912	-	-	223,615	203,912
Public safety	243,220	220,427	-	-	243,220	220,427
Public works	271,666	283,935	-	-	271,666	283,935
Community and economic development	4,035	3,462	-	-	4,035	3,462
Recreation and cultural	40,520	25,581	-	-	40,520	25,581
Sewer	-	-	132,604	122,885	132,604	122,885
Water	-	-	147,813	145,794	147,813	145,794
Total expenses	783,056	737,317	280,417	268,679	1,063,473	1,005,996
Change in net assets	(101,362)	(67,064)	9,324	10,194	(92,038)	(56,870)
Net assets, beginning of year	1,492,770	1,559,834	2,888,975	2,878,781	4,381,745	4,438,615
Net assets, end of year	\$ 1,391,408	\$ 1,492,770	\$ 2,898,299	\$ 2,888,975	\$ 4,289,707	\$ 4,381,745

Governmental Activities:

The result of 2005 governmental activity was a decrease of \$101,362 in net assets to \$1,391,408. Of the total governmental activities' net assets, \$802,395 is invested in capital assets less related debt, \$131,444 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the Village government. The balance of \$457,569 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were property taxes at 50%, State shared revenue at 23%, and operating grants and contributions at 17%. The Village levied two property tax millages for the year ended December 31, 2005, one being for general government operations at 11.8397 mills, which is not assigned to any particular activity, and one for garbage collection at .7118 mills. Charges for services, which reimburse the Village for specific activities, are the second largest source of governmental activity revenue. Examples include water and sewer usage fees. Third largest was State funding through the State revenue sharing program.

Expenses:

Public works is the largest activity, expending approximately 35% of the governmental activities total and includes the Public Works department as well as public street maintenance and improvement activities. Public Safety is the second largest area, expending approximately 31% of the governmental activities total on police protection.

Village of Ovid

Management's Discussion and Analysis

Business-type Activities:

Net assets in business-type activities increased by \$9,324 during 2005. Of the business-type activities' net assets, \$2,348,845 is invested in capital assets less related debt, \$191,889 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the Village government. The balance of \$357,565 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS

As the Village completed 2005, its governmental funds reported *combined* fund balances of \$613,134. This is a net decrease of \$29,076. The net changes are summarized in the following chart:

	General Fund	Major Street	Nonmajor Governmental Funds
Fund Balance 12/31/04	\$ 529,379	\$ 38,716	\$ 74,115
Fund Balance 12/31/05	\$ 470,842	\$ 48,096	\$ 94,196
Net Change	\$ (58,537)	\$ 9,380	\$ 20,081

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of December 31, 2005, the General Fund reported a fund balance of \$470,842. This amount is a decrease of \$58,537 from the fund balance of \$529,379 reported as of December 31, 2004. The 2005 original budget called for a \$27,320 use of fund balance. \$195 of fund balance is reported as reserved or designated.

The General Fund 2005 expenditures and other financing uses exceeded 2005 revenues by \$58,537.

General Fund Budgetary Highlights:

The Village of Ovid's budget is a dynamic document. Although adopted prior to January 1 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$571,118, \$1,431 above the final amended budget. The final amended and original budgets were the same and were less than 1% different than final actual.

The Village's expenditure budget was increased by \$9,900 (2% above the original budget) during 2005. The majority of this increase (\$8,076) was for additional costs of equipment rental charges. The balance on the increase was related to the overall rise in personnel costs, park improvements, etc.

Actual Village expenditures for 2005 were \$19,586 over budget. General Fund actual expenditures came in at \$618,993 and the final budgeted amount was \$599,407, which was only a 3% difference.

Village of Ovid
Management's Discussion and Analysis

Major Street Fund:

As of December 31, 2005, the Major Street Fund reported a fund balance of \$48,096, an increase of \$9,380 from the prior year. \$19,992 of fund balance is reported as reserved or designated. There were no material changes noted between the original and final amended budgeted revenues or expenditures. There were also no material differences between final amended revenues and expenditures and actual amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of year 2005, the Village had invested \$3,366,240, and \$25,675 for the component unit, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$2,984,612 for the primary government. Depreciation charges for the fiscal year totaled \$182,115 for the primary government. Additional information related to capital assets is detailed in Note G of the Financial Statements. Net book value of capital assets at December 31, 2005 was as follows:

	Governmental Activities	Business- type Activities	Component Unit DDA	Total
Land	\$ 2,249	\$ 134,322	\$ 25,675	\$ 162,246
Construction in progress	17,819	-	-	17,819
Land improvements, net	58,000	-	-	58,000
Buildings, net	184,626	-	-	184,626
Furniture and equipment, net	147,731	56,317	-	204,048
Vehicles, net	84,917	-	-	84,917
Water and sewer systems, net	-	2,373,206	-	2,373,206
Infrastructure, net	307,053	-	-	307,053
Capital assets, net	\$ 802,395	\$2,563,845	\$ 25,675	\$ 3,391,915

Long-term Debt - As of December 31, 2005, the Village had \$239,121 in debt outstanding for the primary government. This level of net obligation is \$34,217 less than the obligation recorded as of December 31, 2004.

Outstanding Debt as of December 31, 2005:

Primary Government	<u>Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2005</u>
Governmental Activities				
Compensated absences	\$ 13,338	\$ 10,783	\$ -	\$ 24,121
Business-type Activities				
Refunding Bonds	<u>260,000</u>	<u>-</u>	<u>45,000</u>	<u>215,000</u>
Total Reporting Entity	<u>\$ 273,338</u>	<u>\$ 10,783</u>	<u>\$ 45,000</u>	<u>\$ 239,121</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note H to the financial statements.

Village of Ovid

Management's Discussion and Analysis

VILLAGE OF OVID GOVERNMENT ECONOMIC OUTLOOK:

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been affected and any further cuts would affect the services that we provide to the citizens of the Village of Ovid.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates, decreasing by nearly 80% over the past several years.
- Health insurance premiums continue to rise much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the Budget for 2006. A usage of \$195 of the Village's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be significantly higher. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 834-5550.

BASIC FINANCIAL STATEMENTS

Village of Ovid

STATEMENT OF NET ASSETS

December 31, 2005

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current				
Cash and cash equivalents	\$ 540,504	\$ 373,709	\$ 914,213	\$ 65,850
Receivables	1,718	23,136	24,854	2,690
Internal balances	37,694	(37,694)	-0-	-
Due from other governmental units	43,804	-	43,804	-
Total current assets	623,720	359,151	982,871	68,540
Noncurrent				
Cash and cash equivalents				
- restricted	-	228,284	228,284	3,349
Contracts receivable	-	-	-0-	58,984
Unamortized expense	-	3,546	3,546	-
Capital assets not being depreciated	20,068	134,322	154,390	25,675
Capital assets, net of accumulated depreciation	782,327	2,429,523	3,211,850	-
Total noncurrent assets	802,395	2,795,675	3,598,070	88,008
TOTAL ASSETS	1,426,115	3,154,826	4,580,941	156,548
LIABILITIES				
Current				
Accounts payable	5,477	2,660	8,137	-
Accrued liabilities	5,109	754	5,863	-
Accrued interest payable	-	1,718	1,718	-
Current portion of compensated absences	10,842	-	10,842	-
Current portion of long-term debt	-	50,000	50,000	-
Total current liabilities	21,428	55,132	76,560	-0-
Noncurrent				
Payable from restricted cash - customer deposits	-	36,395	36,395	-
Compensated absences	13,279	-	13,279	-
Revenue bonds	-	165,000	165,000	-
Total noncurrent liabilities	13,279	201,395	214,674	-0-
TOTAL LIABILITIES	34,707	256,527	291,234	-0-
NET ASSETS				
Invested in capital assets, net of related debt	802,395	2,348,845	3,151,240	-
Restricted for streets	131,444	-	131,444	-
Restricted for debt retirement	-	187,672	187,672	3,349
Unrestricted	457,569	361,782	819,351	153,199
TOTAL NET ASSETS	\$ 1,391,408	\$ 2,898,299	\$ 4,289,707	\$ 156,548

See accompanying notes to financial statements.

VILLAGE OF OVID

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions		Primary Government		Component Unit (DDA)
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 223,615	\$ 10,418	\$ -	\$ (213,197)	\$ -	\$ (213,197)	\$ -
Public safety	243,220	1,592	674	(240,954)	-	(240,954)	-
Public works	271,666	27,164	113,036	(131,466)	-	(131,466)	-
Community and economic development	4,035	485	-	(3,550)	-	(3,550)	-
Recreation and cultural	40,520	-	1,000	(39,520)	-	(39,520)	-
Total governmental activities	783,056	39,659	114,710	(628,687)	-0-	(628,687)	-0-
Business-type activities:							
Sewer	132,604	166,328	-	-	33,724	33,724	-
Water	147,813	99,322	-	-	(48,491)	(48,491)	-
Total business-type activities	280,417	265,650	-	-0-	(14,767)	(14,767)	-0-
Total primary government	\$ 1,063,473	\$ 305,309	\$ 114,710	(628,687)	(14,767)	(643,454)	-0-
Component unit:							
Downtown Development Authority	\$ 22,992	\$ -	\$ -	-0-	-0-	-0-	(22,992)
General revenues:							
Property taxes				340,991	-	340,991	-
State shared revenue				153,707	-	153,707	-
Investment earnings				11,239	10,901	22,140	6,083
Miscellaneous				21,388	13,190	34,578	541
Total general revenues				527,325	24,091	551,416	6,624
Change in net assets							
				(101,362)	9,324	(92,038)	(16,368)
Net assets, beginning of the year				1,492,770	2,888,975	4,381,745	172,916
Net assets, end of the year				\$ 1,391,408	\$ 2,898,299	\$ 4,289,707	\$ 156,548

See accompanying notes to financial statements.

Village of Ovid

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2005

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 393,320	\$ 57,905	\$ 89,279	\$ 540,504
Accounts receivable	1,718	-	-	1,718
Due from other funds	58,665	-	803	59,468
Due from other governmental units	27,396	12,006	4,402	43,804
TOTAL ASSETS	\$ 481,099	\$ 69,911	\$ 94,484	\$ 645,494
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Payables				
Accounts	\$ 5,343	\$ 134	\$ -	\$ 5,477
Wages	4,111	710	288	5,109
Due to other funds	803	20,971	-	21,774
TOTAL LIABILITIES	10,257	21,815	288	32,360
FUND BALANCE				
Fund balance				
Unreserved				
Designated	195	19,992	39,999	60,186
Undesignated	470,647	28,104	54,197	552,948
TOTAL FUND BALANCE	470,842	48,096	94,196	613,134
TOTAL LIABILITIES AND FUND BALANCE	\$ 481,099	\$ 69,911	\$ 94,484	\$ 645,494

See accompanying notes to financial statements.

Village of Ovid

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2005

Total fund balance - governmental funds \$ 613,134

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,288,227	
Accumulated depreciation is	<u>(1,485,832)</u>	
Capital assets, net		802,395

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Compensated absences	<u>(24,121)</u>
----------------------	-----------------

Net assets of governmental activities \$ 1,391,408

See accompanying notes to financial statements.

Village of Ovid

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	Primary Government			Total
	General	Major Street	Nonmajor Governmental Funds	Governmental Funds
REVENUES				
Taxes	\$ 340,991	\$ -	\$ -	\$ 340,991
Licenses and permits	485	-	-	485
Intergovernmental	160,816	78,001	28,600	267,417
Charges for services	9,358	-	-	9,358
Interest and rents	38,081	2,231	744	41,056
Other	21,387	-	1,000	22,387
TOTAL REVENUES	571,118	80,232	30,344	681,694
EXPENDITURES				
General government	219,983	-	-	219,983
Public safety	213,732	-	-	213,732
Public works	124,870	51,313	39,650	215,833
Community and economic development	4,035	-	-	4,035
Recreation and cultural	56,373	-	814	57,187
TOTAL EXPENDITURES	618,993	51,313	40,464	710,770
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(47,875)	28,919	(10,120)	(29,076)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	30,201	30,201
Transfers out	(10,662)	(19,539)	-	(30,201)
TOTAL OTHER FINANCING SOURCES (USES)	(10,662)	(19,539)	30,201	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(58,537)	9,380	20,081	(29,076)
Fund balances, beginning of year	529,379	38,716	74,115	642,210
Fund balances, end of year	\$ 470,842	\$ 48,096	\$ 94,196	\$ 613,134

See accompanying notes to financial statements.

Village of Ovid

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Net change in fund balances - total governmental funds \$ (29,076)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 24,819	
Depreciation expense	<u>(86,322)</u>	
Excess of depreciation expense over capital outlay		(61,503)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences	<u>(10,783)</u>
--	-----------------

Change in net assets of governmental activities \$ (101,362)

See accompanying notes to financial statements.

Village of Ovid

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2005

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash	\$ 198,487	\$ 175,222	\$ 373,709
Accounts receivable	14,676	8,460	23,136
Total current assets	213,163	183,682	396,845
Noncurrent assets			
Cash - restricted	210,574	17,710	228,284
Unamortized expense	3,546	-	3,546
Capital assets not being depreciated	76,800	57,522	134,322
Capital assets, net	936,477	1,493,046	2,429,523
Total other assets	1,227,397	1,568,278	2,795,675
TOTAL ASSETS	1,440,560	1,751,960	3,192,520
LIABILITIES			
Current liabilities			
Accounts payable	192	2,468	2,660
Accrued liabilities	304	450	754
Due to other funds	11,996	25,698	37,694
Accrued interest payable	1,718	-	1,718
Current portion of long-term debt	50,000	-	50,000
Total current liabilities	64,210	28,616	92,826
Noncurrent liabilities			
Payable from restricted cash - customer deposits payable	18,685	17,710	36,395
Revenue bonds payable	165,000	-	165,000
Total noncurrent liabilities	183,685	17,710	201,395
TOTAL LIABILITIES	247,895	46,326	294,221
NET ASSETS			
Invested in capital assets, net of related debt	798,277	1,550,568	2,348,845
Restricted for debt retirement	187,672	-	187,672
Unrestricted	206,716	155,066	361,782
TOTAL NET ASSETS	<u>\$ 1,192,665</u>	<u>\$ 1,705,634</u>	<u>\$ 2,898,299</u>

See accompanying notes to financial statements.

Village of Ovid

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2005

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services			
Usage fees	\$ 164,828	\$ 94,822	\$ 259,650
Tap in fees	1,500	4,500	6,000
Other	140	13,050	13,190
TOTAL OPERATING REVENUES	166,468	112,372	278,840
OPERATING EXPENSES			
Salaries and wages	16,082	29,981	46,063
Fringe benefits	13,607	12,244	25,851
Administrative charge	5,174	2,918	8,092
Contractual services	6,476	7,587	14,063
Supplies	4,054	6,384	10,438
Utilities	5,777	14,333	20,110
Training	24	1,391	1,415
Insurance	3,570	4,599	8,169
Repairs and maintenance	11,977	12,192	24,169
Equipment rental	6,776	4,795	11,571
Other	1,388	185	1,573
Depreciation	44,589	51,204	95,793
TOTAL OPERATING EXPENSES	119,494	147,813	267,307
OPERATING INCOME (LOSS)	46,974	(35,441)	11,533
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	10,858	43	10,901
Interest expense	(13,110)	-	(13,110)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,252)	43	(2,209)
CHANGE IN NET ASSETS	44,722	(35,398)	9,324
Net assets, beginning of year	1,147,943	1,741,032	2,888,975
Net assets, end of year	\$ 1,192,665	\$ 1,705,634	\$ 2,898,299

See accompanying notes to financial statements.

Village of Ovid

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 163,786	\$ 115,833	\$ 279,619
Cash receipts from other funds	5,489	2,640	8,129
Cash paid to suppliers	(45,807)	(54,126)	(99,933)
Cash paid for employee benefits	(13,607)	(12,244)	(25,851)
Cash paid to employees	(16,332)	(29,982)	(46,314)
NET CASH PROVIDED BY OPERATING ACTIVITIES	93,529	22,121	115,650
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	(24,879)	(32,003)	(56,882)
Interest expense	(13,110)	-	(13,110)
Payments of borrowing	(45,000)	-	(45,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(82,989)	(32,003)	(114,992)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	10,858	43	10,901
NET INCREASE (DECREASE) IN CASH DURING YEAR	21,398	(9,839)	11,559
Cash, beginning of year	387,663	202,771	590,434
Cash, end of year	<u>\$ 409,061</u>	<u>\$ 192,932</u>	<u>\$ 601,993</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 46,974	\$ (35,441)	\$ 11,533
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	44,589	51,204	95,793
Decrease in receivables	517	504	1,021
Decrease in unamortized expenses	887	-	887
Increase in due to other funds	5,489	2,640	8,129
Increase (decrease) in accounts payable	(76)	258	182
(Decrease) in accrued liabilities	(250)	(1)	(251)
(Decrease) in accrued interest payable	(1,402)	-	(1,402)
Increase (decrease) in customer deposits	(3,199)	2,957	(242)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 93,529	\$ 22,121	\$ 115,650

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Ovid is located in Clinton County, Michigan and has a population of approximately 1,500. The Village of Ovid operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and six (6) trustees who are elected at large for overlapping four (4) year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Ovid (primary government) and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

2. Discretely Presented Component Unit

The component unit column in the financial statements includes the financial data of the Village's component unit (Downtown Development Authority). The governing body of the Downtown Development Authority is appointed by the Village Council and the Authority's budget is subject to the approval of the Village Council.

3. Jointly Governed Organizations

The Village participates in the following activities which are considered to be jointly governed organizations in relation to the Village, due to there being no ongoing financial interest or responsibility:

Ovid-Middlebury Emergency Services Authority - The Village of Ovid, in conjunction with the Townships of Ovid and Middlebury, has entered into an agreement which created the Ovid-Middlebury Emergency Services Authority. The Ovid-Middlebury Emergency Services Authority board is composed of one (1) member appointed by the Village and three (3) members appointed by each of the Townships. The Village has no financial responsibility to the Authority.

Ovid Public Library - Under Public Act 24 of 1989, the Village of Ovid, in conjunction with the Townships of Ovid and Middlebury, created the Ovid Public Library, which is considered a District Library. The Ovid Public Library board is composed of two (2) members appointed by each of the three municipalities. The Townships collect and distribute property taxes that are levied by the Library. The Village has no financial responsibility to the Library.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Sewer Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- d. The Water Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to January 1, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to January 1, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure (i.e., fund) level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash and Cash Equivalents

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

9. Restricted Cash

A portion of the cash and cash equivalents of the Sewer System and Water System Funds are classified as restricted cash because their use is limited. The Sewer System Fund's restrictions are due to bond resolution requirements to maintain certain balances in separate accounts for debt service and general purpose reserves, and also for the amount of customer deposits held at December 31, 2005. The Water System Fund's restriction is due to the amount of customer deposits held at December 31, 2005.

10. Contracts Receivable

The Downtown Development Authority (component unit) has loaned amounts to certain individuals and organizations that are payable over a long-term payment schedule. These amounts have been recorded as receivables with corresponding deferred revenue. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables.

11. Property Tax

The Village of Ovid bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Ovid on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 20 mills (\$20 per \$1,000 of assessed valuation) for general governmental services and up to an additional 3 mills (\$3 per \$1,000 of assessed valuation) for garbage collection and disposal. For the year ended December 31, 2005, the Village levied 11.8397 mills for general governmental services and 0.7118 mills for garbage collection and disposal.

12. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

13. Compensated Absences

Accumulated vacation and sick pay amounts of Village employees are vested (i.e., are payable at termination) according to Village personnel guidelines. This liability, along with the related payroll taxes, is recorded in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Village of Ovid has capitalized all applicable infrastructure that met the reporting criteria, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer and Water systems and improvements	5 - 40 years
Equipment and machinery	5 - 30 years
Buildings	50 years
Vehicles	4 - 20 years
Infrastructure	20 years

15. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of December 31, 2005, the carrying amount of the Village's deposits were \$1,211,696 and the bank balance was \$1,228,122, of which \$404,856 was covered by federal depository insurance. The remaining balance of \$823,266 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2005, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Village of Ovid

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2005:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 914,213	\$ 65,850	\$ 980,063
Cash and cash equivalents - restricted	<u>228,284</u>	<u>3,349</u>	<u>231,633</u>
	<u>\$ 1,142,497</u>	<u>\$ 69,199</u>	<u>\$ 1,211,696</u>

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2005:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Total</u>
Cash and cash equivalents			
Enterprise Funds	\$ 36,395	\$ 191,889	\$ 228,284
Component Unit Funds	<u>-</u>	<u>3,349</u>	<u>3,349</u>
	<u>\$ 36,395</u>	<u>\$ 195,238</u>	<u>\$ 231,633</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2005:

Due to General fund from:	
Major Street Fund	\$ 20,971
Sewer Fund	11,996
Water Fund	<u>25,698</u>
	<u>\$ 58,665</u>
Due to Nonmajor governmental funds from:	
General Fund	<u>\$ 803</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component unit have been eliminated.

Transfers to Nonmajor governmental funds from:

General Fund	\$ 10,662
Major Street Fund	<u>19,539</u>
	<u>\$ 30,201</u>

NOTE F: COMPONENT UNIT LONG-TERM CONTRACTS RECEIVABLE

The Village has one (1) loan outstanding to an organization made through the Downtown Development Authority (component unit) Special Revenue Fund. The amounts attributable to this long-term contract receivable have been recorded in the Downtown Development Authority (component unit) Special Revenue Fund as contracts receivable and deferred revenue. The following is a summary of future annual revenue from debtors that currently have signed promissory notes with the Village.

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,383	\$ 3,617	\$ 6,000
2007	<u>58,984</u>	<u>1,754</u>	<u>60,738</u>
	<u>\$ 61,367</u>	<u>\$ 5,371</u>	<u>\$ 66,738</u>

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

PRIMARY GOVERNMENT

	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2005</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,249	\$ -	\$ -	\$ 2,249
Construction in progress	<u>-</u>	<u>17,819</u>	<u>-</u>	<u>17,819</u>
Subtotal	2,249	17,819	-0-	20,068
Capital assets being depreciated				
Land improvements	109,000	-	-	109,000
Buildings	413,500	-	-	413,500
Furniture and equipment	305,060	-	-	305,060
Vehicles	196,144	7,000	10,000	193,144
Infrastructure	<u>1,247,455</u>	<u>-</u>	<u>-</u>	<u>1,247,455</u>
Subtotal	2,271,159	7,000	10,000	2,268,159

Village of Ovid

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Governmental activities - Continued				
Less accumulated depreciation for:				
Land improvements	\$(45,550)	\$(5,450)	\$ -	\$(51,000)
Buildings	(220,624)	(8,250)	-	(228,874)
Furniture and equipment	(141,700)	(15,629)	-	(157,329)
Vehicles	(90,758)	(27,469)	(10,000)	(108,227)
Infrastructure	(910,878)	(29,524)	-	(940,402)
Subtotal	(1,409,510)	(86,322)	(10,000)	(1,485,832)
Net capital assets being depreciated	861,649	(79,322)	-0-	782,327
Total Net Capital Assets	\$ 863,898	\$(61,503)	\$ -0-	\$ 802,395

Depreciation expense was charged to activities of the following governmental activities:

General government	\$ 3,632
Public safety	24,633
Public works	56,905
Recreation and cultural	1,152
Total depreciation expense	\$ 86,322

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Business-type activities				
Capital assets not being depreciated				
Land	\$ 134,322	\$ -	\$ -	\$ 134,322
Capital assets being depreciated				
Building	115,681	-	-	115,681
System	3,639,789	51,840	-	3,691,629
Equipment	115,951	5,042	-	120,993
Subtotal	3,871,421	56,882	-0-	3,928,303
Less accumulated depreciation for:				
Building	(115,681)	-	-	(115,681)
System	(1,227,768)	(90,655)	-	(1,318,423)
Equipment	(59,538)	(5,138)	-	(64,676)
Subtotal	(1,402,987)	(95,793)	-0-	(1,498,780)
Total capital assets being depreciated	2,468,434	(38,911)	-0-	2,429,523
Total net capital assets	\$ 2,602,756	\$(38,911)	\$ -0-	\$ 2,563,845

Village of Ovid

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE G: CAPITAL ASSETS - CONTINUED

COMPONENT UNIT

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Downtown Development Authority				
Capital assets not being depreciated				
Land	\$ 25,675	\$ -	\$ -	\$ 25,675

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended December 31, 2005:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Compensated absences	\$ 13,338	\$ 10,783	\$ -	\$ 24,121	\$ 10,842
Business-type activities					
Sewer System Fund					
1997C Refunding Bonds	260,000	-	45,000	215,000	50,000
Total Primary Government	\$ 273,338	\$ 10,783	\$ 45,000	\$ 239,121	\$ 60,842

In 1997 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1989 Sewer Revenue Bonds and replace them with the 1997C Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$43,372.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Sanitary Sewer System Refunding Bonds

\$495,000 Sewer Refunding Bonds dated October 16, 1997, due in annual installments ranging from \$50,000 to \$60,000 through May 1, 2009, with interest of 7.20 percent, payable semi-annually.

\$ 215,000

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 50,000	\$ 13,680	\$ 63,680
2007	50,000	10,080	60,080
2008	55,000	6,300	61,300
2009	60,000	2,160	62,160
	<u>\$ 215,000</u>	<u>\$ 32,220</u>	<u>\$ 247,220</u>

Village of Ovid

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE I: DEFERRED COMPENSATION PLAN

The Village of Ovid offers its employees a deferred compensation plan sponsored by Prudential Insurance Company of America, which was created in accordance with IRS Section #457. The plan, available to all full time employees, permits them to defer a portion of their current salary until future years. In addition, after completion of ninety (90) days of employment, the Village will match employee contributions, up to 5% of current salary. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Elected officials are not eligible to participate. For the year ended December 31, 2005, the Village contributed \$8,806 to the plan and employees contributed \$9,632.

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended December 31, 2005, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Financial administration	\$ 115,955	\$ 117,687	\$ 1,732
Equipment rental	37,817	45,356	7,539
Public safety			
Police department	212,329	213,732	1,403
Public Works	120,084	124,870	4,786
Recreation and cultural			
Parks and recreation	40,836	50,017	9,181
Other financing uses			
Transfers out	7,500	10,662	3,162

NOTE K: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following is the fund balance reserve as of December 31, 2005:

Fund Balance

COMPONENT UNIT

Special Revenue - Downtown Development Fund
Reserved for debt retirement

\$ 3,349

Village of Ovid

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE K: FUND EQUITY RESERVES AND DESIGNATIONS - CONTINUED

The following are the fund balance designations as of December 31, 2005:

PRIMARY GOVERNMENT

General

Designated for subsequent year's expenditures \$ 195

Major Street

Designated for subsequent year's expenditures \$ 19,992

Nonmajor governmental funds

Designated for subsequent year's expenditures \$ 39,999

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source (bond ordinance, etc.) which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2005:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Public works

Streets and highways \$ 131,444

Business-type activities

Restricted for debt service \$ 191,889

Component Units (DDA)

Restricted for debt service \$ 3,349

NOTE M: RISK MANAGEMENT

The Village participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, law enforcement, auto, crime, in-land marine, boiler, and bonding losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

Village of Ovid

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE N: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended December 31, 2005:

REVENUES	
Building Permits	\$ 485
EXPENDITURES	
Salary and fringes	1,350
Contracted services	2,000
Publications and notices	<u>685</u>
TOTAL EXPENDITURES	<u>4,035</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u><u>\$ (3,550)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Ovid

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 334,361	\$ 334,361	\$ 340,991	\$ 6,630
Licenses and permits	150	150	485	335
Intergovernmental	162,396	162,396	160,816	(1,580)
Charges for services	9,470	9,470	9,358	(112)
Interest and rents	44,150	44,150	38,081	(6,069)
Other	19,160	19,160	21,387	2,227
TOTAL REVENUES	569,687	569,687	571,118	1,431
EXPENDITURES				
General government				
Legislative	16,455	16,296	16,272	24
Executive	10,750	10,909	10,879	30
Financial administration	115,955	115,955	117,687	(1,732)
Hall and grounds	33,326	33,125	29,789	3,336
Equipment rental	29,741	37,817	45,356	(7,539)
Total general government	206,227	214,102	219,983	(5,881)
Public safety				
Police department	211,929	212,329	213,732	(1,403)
Public works	122,155	120,084	124,870	(4,786)
Community and economic development				
Planning/zoning commission	5,700	5,700	4,035	1,665
Recreation and cultural				
Parks and recreation	34,936	40,836	50,017	(9,181)
Community promotion	8,560	6,356	6,356	-0-
Total recreation and cultural	43,496	47,192	56,373	(9,181)
TOTAL EXPENDITURES	589,507	599,407	618,993	(19,586)

Village of Ovid

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXCESS OF REVENUES (UNDER) EXPENDITURES	\$ (19,820)	\$ (29,720)	\$ (47,875)	\$ (18,155)
OTHER FINANCING USES				
Transfer out	<u>(7,500)</u>	<u>(7,500)</u>	<u>(10,662)</u>	<u>(3,162)</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(27,320)	(37,220)	(58,537)	(21,317)
Fund balance, beginning of year	<u>529,379</u>	<u>529,379</u>	<u>529,379</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 502,059</u>	<u>\$ 492,159</u>	<u>\$ 470,842</u>	<u>\$ (21,317)</u>

Village of Ovid

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental -State				
Gas and weight tax	\$ 82,046	\$ 82,046	\$ 78,001	\$ (4,045)
Interest	500	500	2,231	1,731
TOTAL REVENUES	82,546	82,546	80,232	(2,314)
EXPENDITURES				
Public works	55,926	55,926	51,313	4,613
EXCESS OF REVENUES OVER EXPENDITURES	26,620	26,620	28,919	2,299
OTHER FINANCING (USES)				
Transfers out	(20,512)	(20,512)	(19,539)	973
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	6,108	6,108	9,380	3,272
Fund balance, beginning of year	38,716	38,716	38,716	-0-
Fund balance, end of year	\$ 44,824	\$ 44,824	\$ 48,096	\$ 3,272

OTHER SUPPLEMENTARY INFORMATION

Village of Ovid

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2005

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Parks and Recreation	
ASSETS			
Cash and cash equivalents	\$ 78,431	\$ 10,848	\$ 89,279
Due from other governmental units	4,402	-	4,402
Due from other funds	803	-	803
TOTAL ASSETS	<u>\$ 83,636</u>	<u>\$ 10,848</u>	<u>\$ 94,484</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -0-
Accrued wages	288	-	288
TOTAL LIABILITIES	288	-0-	288
FUND BALANCES			
Unreserved			
Designated	39,999	-	39,999
Undesignated	43,349	10,848	54,197
TOTAL FUND BALANCE	<u>83,348</u>	<u>10,848</u>	<u>94,196</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 83,636</u>	<u>\$ 10,848</u>	<u>\$ 94,484</u>

Village of Ovid

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2005

	<u>Special Revenue</u>		<u>Total</u>
	<u>Local</u>	<u>Parks and</u>	<u>Nonmajor</u>
	<u>Street</u>	<u>Recreation</u>	<u>Governmental</u>
			<u>Funds</u>
REVENUES			
Intergovernmental	\$ 28,600	\$ -	\$ 28,600
Interest	744	-	744
Other	-	1,000	1,000
TOTAL REVENUES	29,344	1,000	30,344
EXPENDITURES			
Public works	39,650	-	39,650
Recreation and cultural	-	814	814
TOTAL EXPENDITURES	39,650	814	40,464
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(10,306)	186	(10,120)
OTHER FINANCING SOURCES			
Transfers in	19,539	10,662	30,201
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	9,233	10,848	20,081
Fund balances, beginning of year	74,115	-	74,115
Fund balances, end of year	<u>\$ 83,348</u>	<u>\$ 10,848</u>	<u>\$ 94,196</u>

Village of Ovid

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2005

	Special Revenue
ASSETS	
Cash	\$ 65,850
Cash - restricted	3,349
Interest receivable	307
Contracts receivable	<u>61,367</u>
TOTAL ASSETS	<u>\$ 130,873</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Deferred revenue	36,367
FUND BALANCE	
Reserved for debt retirement	3,349
Unreserved	
Undesignated	<u>91,157</u>
TOTAL FUND BALANCE	<u>94,506</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 130,873</u>

Village of Ovid

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2005

Fund balance - governmental fund	\$	94,506
---	-----------	---------------

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets (land) used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	25,675
-------------------------------	--------

Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue	<u>36,367</u>
------------------	---------------

Net assets of governmental activities	\$	<u>156,548</u>
--	-----------	-----------------------

Village of Ovid

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
- DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2005

	Special Revenue
REVENUES	
Interest	\$ 6,083
Other	<u>60,930</u>
TOTAL REVENUES	67,013
EXPENDITURES	
Community and economic development	<u>22,992</u>
EXCESS OF REVENUES OVER EXPENDITURES	44,021
Fund balance, beginning of year	<u>50,485</u>
Fund balance, end of year	<u><u>\$ 94,506</u></u>

Village of Ovid

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
- DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended September 30, 2005

Net change in fund balance	\$ 44,021
-----------------------------------	------------------

Amounts reported for governmental activities in the statement of activities are different because:

Loans to outside entities related to contracts receivable and subsequent collections of contracts receivable is reported as expenditures and revenues in governmental funds, but the subsequent collections reduces contracts receivable and the loans increase contracts receivable in the statement of net assets.

In the current year, these amounts consist of:

Contracts receivable - principal collections	<u>(60,389)</u>
--	-----------------

Change in net assets of governmental activities	<u>\$ (16,368)</u>
--	---------------------------

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Ovid
Ovid, Michigan

As you know, we have recently completed our audit of the records of the Village of Ovid, Michigan as of and for the year ended December 31, 2005. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control and our discussions with management.

1. Budgets should be adopted, monitored and amended when necessary.

As noted in the financial statements, some of the activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements. This condition did not affect our report on the financial statements dated February 1, 2006.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Ovid and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 1, 2006